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SUBJECT: BANKING IN BASRAH

¶1. (U) Summary: Banks in Basrah, Iraq's second largest city, are a mix of state-owned and private insitutions. Challenges for Basrah's bankers include low rates of loan repayment and establishment of "know-your-customer." No international banks currently operate in Basrah, although five such banks are operating in Iraq. The total number of operating banks in Basrah represents seven percent of the total in Iraq. End summary.

#### Overview of Banking in Basrah

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¶2. (U) Basrah's largest banks are the state-owned Rafaidain Bank and Rashid Bank. There are also the specialized, state-owned institutions Industrial Bank, Housing Bank, Agricultural Cooperative Bank, and Trade Bank of Iraq. Together, these banks have an overwhelming share of Basrah's banking business. Additionally, there are eight private share-holding banks and one Islamic bank. Basra has relatively few bank branches -- just one per 80,000 inhabitants, versus one per 55,000 for Iraq as a whole.

¶3. (U) The Basrah branch of the Central Bank of Iraq (CBI) supervises all banking activities in Iraq's southern region. CBI Basrah enforces banking regulations and has the authority to inspect and audit any bank's books and records. The twenty branches of Rafidain and Rashid banks in and around Basrah mainly handle Government of Iraq (GOI) accounts. They are located in the city of Basrah and in outlying areas, including sub-districts such as Dair and Talha tha have a low population density.

#### Specialized Banks

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¶4. (U) A number of specialized, state-owned banks operate in Basrah under the auspices of the Ministry of Finance. They are concentrated in the city of Basrah and have no branches in outlying areas, with the exception of the Agriculture Cooperative Bank, which has a branch in the Qurna district. The specialized banks include:

- Agriculture Cooperative Bank;
- Housing Bank (funds private housing projects, residential or commercial);
- Industrial Bank (funds industrial activities, including civil works related to industry);
- Trade Bank of Iraq (supports import-export activities with letters of credit).

#### Private Banks and Sharia Banking

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¶5. (U) Only one private bank in Basrah, the Iraqi Islamic Bank (IIB), operates according to sharia. There are four other Islamic banks operating in Iraq. IIB offers checking and savings accounts that do not bear interest. Instead it

pays returns on time deposits in the form of a partnership, with the bank and the depositor sharing profits and losses on an equal basis. IIB makes loans under the provision that borrowers may not mark up goods by more than 15 percent. The Iraqi Islamic Bank Basrah lends only to businesses.

¶6. (U) The remaining eight banks in Basrah are private share-holding companies. Their shares are publicly offered on the stock exchange. Non-Iraqis also invest in these banks. Some are family dominated, despite being publicly traded. One third of the banks in Basrah Province are privately owned, the same proportion as for Iraq generally. Only four private banks in Basrah do business in foreign currency: Middle East Bank, Warka Bank, Credit Bank and Gulf Commercial Bank. Private banks are concentrated in the city of Basrah, though Basrah Investment Bank has a branch in Zubair district.

¶7. (U) The following participated in a meeting with USAID and the Regional Embassy Office: Zuhair Ali Akbar, DG of Central Bank; Dawood Sakran Hassan, Manager of Trade Bank of Iraq; Mohammad Haji Kafaji, Director of Agricultural Bank; and Ali QMohammad Haji Kafaji, Director of Agricultural Bank; and Ali Salah Al Kadami, Deputy Director of Basrah Bank. Their comments follow below:

Trade Bank of Iraq  
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¶8. (U) Established in Baghdad in November 2003, the Trade Bank of Iraq (TBI) opened a branch in Basrah in March 2007 to support foreign trade. TBI's main activities in Basrah are letters of credit (L/Cs) and letters of guarantee. Currently

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the greater part of foreign trade in Basrah is done with money transfers or cash in U.S. dollars. L/Cs take time and require extensive documentation, so tend to be inconvenient for private businesses. TBI Basrah's Hassan said that a program to improve the L/C process and educate private businessmen would increase the use of L/Cs. TBI also takes savings deposits. Most loans are for one year and mainly for trading and reconstruction activities. Fifty percent of TBI Basrah's loan portfolio is with private firms that do business with the government.

Basrah Bank  
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¶9. (U) Basrah Bank opened in 1993 and was the city's first privately-owned bank in the Saddam Hussein era. Basrah bank is the only bank offering an international VISA credit card to its customers. It charges interest of ten percent for dollar-denominated loans and 14 percent for Iraqi dinar loans. Ali Salah Al Kadami said Iraq's private sector is still immature. Bankers and private entrepreneurs still view each other with a certain degree of mistrust, he said. The private sector's rate of loan repayment ration was low, and the property repossession law was difficult to apply, because it takes years in court for cases to be heard. This makes mortgage lending challenging. Ninety percent of Basrah's loan portfolio was in short-term loans (up to two years); five percent in medium-term loans (five years); and five percent in long-term loans (mostly real estate, up to 25 years). Basrah Bank currently has two branches in Basrah city, one in Al Zubair and another in the Hadi area.

Agriculture Bank  
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¶10. (U) Most of the Agriculture Bank's loans are short- and medium-term. Different interest rates apply for two categories of farmers. If nominated by the Director General of Agriculture, borrowers pay an interest rate of two percent. Otherwise, they pay eight percent and need personal and private guarantees from up to five individuals. Most

loans are disbursed in two installments. The farmers' repayment rate is 90 percent. One reason for the high recovery ratio is that when a farmer returns for the second installment, any outstanding repayment amount is deducted. Agriculture Bank has 75 percent of its total loan portfolio in the agriculture sector, mainly with small farmers (up to 20 donum). The bank has expanded its business to include loans for domestic animals, date palm trees and machinery. Agriculture Bank has a branch in the city of Basra and another in Qurna.

#### Trade Bank Training Request

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¶11. (SBU) In a subsequent meeting at TBI Basrah on February 2, the branch manager said that wealthy Basrawis did not keep their money in Iraq, but in Dubai, Jordan or Europe. Income from oil smuggling was also sent outside the country. Many bank transactions were still related to public-sector activity, and the private sector preferred cash transactions.

It is important to facilitate legitimate trade finance with Iran and other countries via bank transactions. Cash transactions are not subject to oversight the way bank transactions are. Dawood said that he would strongly welcome more training for his staff on L/Cs, managing credit cards, and automatic teller machines (ATMs). The Treasury Attache's office in Baghdad is offering three training seminars on Letters of Credit for the provinces. Central and Southern provinces will receive the three-day course in Baghdad; the Northern provinces will receive training in Erbil. The focus of the training will be to increase the understanding of Qof the training will be to increase the understanding of using Letters of Credit by the provinces, however private banks will be invited to attend and sit in on each of the workshops. The workshops are scheduled to be held in March, April and May of 2009.

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